

Gateway's Economic Outlook - July 2011



To keep you up-to-date on the state of the Australian economy and, more importantly, what that means to you and your hip pocket, we've introduced a new section to *gatepost* called 'Economic Outlook'. Each quarter, we will take a look at the major economic developments in the Australian economy and explain in a snapshot what this means for you and your family.

No movement yet for the Cash Rate in 2011. We are yet to see any change in the RBA Cash Rate in 2011, leaving it at 4.75% after the increase in November 2010.

Whilst this is great news for mortgage holders, it seems that an increase is not too far away. The RBA June Board meeting minutes were very clear that "tightening in monetary policy will be necessary at some point". The majority of economists concur that there are likely to be one to two 0.25% increases before 2011 is done.

Strong economic growth and low unemployment are fuelling inflation risks. Interestingly though, there seems to be a two-speed economy in effect, with much of this growth stemming from the resources sector. Other sectors are in less robust shape – tourism and retail are still reeling from the soaring Australian Dollar. At a recent Economic Society of Australia address, RBA Governor Glenn Stevens suggested the increase in the relative value of the dollar was a structural shift that domestic Australian industries must adjust to.

Retail sales turnover is well down, despite what seems like an endless parade of discounting. Australians look to have lost their love affair with spending for the moment and are shifting to more of a savings cycle. There is some psychology at play with this – as a consequence of the GFC and the continuing global fallout, Australians are far more cautious with their spending. The climb in value of the dollar, some 25% or so increase on this time last year, means that Australians expect retailer discounting in excess of that 25% before they perceive any real value. Whilst the big retailers, despite their grumbling, will weather the storm, this attitude puts immense pressure on smaller retailers who do not possess the buying power to pressure wholesale distributors, and this is really hurting their bottom line.